

behind the headline



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BUSHEL

TO BURN

by J. W. Holmes

September, 1940

10 cents

Behind the Headline : No. 1 : September, 1940

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Behind the Headline is a publication intended to keep Canadians abreast of the major problems of Canadian governmental policy. Each issue will deal with a matter of immediate importance to Canada. The recent developments in relations between Canada and the United States are of such significance that it is intended to build the next four or five issues of **Behind the Headline** around the theme of Canadian-American relations. The next issue will be a summary of the foreign policy of the United States today and the domestic situation behind it. Further numbers will deal with defence co-operation, economic relations, Canada and Pan-Americanism, etc.

At least ten issues will appear yearly and probably more special supplements may be published from time to time also.

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BUSHEL TO BURN

RUIN may be lurking round the corner for the famous wheat economy of Canada. They used to tell us that prosperity was just around the corner. And in those days prosperity for the west took the shape of a full sheaf of wheat. Now that same sheaf has assumed a more ominous appearance, a threatening countenance. But it is still lurking round the corner.

In 1937 Canada had one of the poorest wheat crops on record—170,000,000 bushels—and we had a wheat problem. Now, in 1940, three years later there is every indication that we shall gather in 500,000,000 bushels, but we are faced with another, and more baffling wheat problem. The facts of this extraordinary situation should be known by every Canadian, for they affect the future of one of our basic industries.

The entire economy of the Prairie Provinces depends upon wheat, and the prosperity of wheat depends upon the export trade. Of our exports, over one half have in the past gone to the United Kingdom and Eire. But our next best overseas customers have been Belgium, the Netherlands, France, Germany, Norway, and Denmark, all of which face the prospects of hungry winters cut off from Canadian wheat. We have lost markets which amounted to about 46,000,000 bushels in 1938-39, although we have also been rid of some competition in the wheat trade formerly provided by the Balkan countries and Poland.

This loss in the export market has been a sad blow for Western farmers who, after surviving a ten year drought, last spring seeded two million extra acres in the hope of recouping their fortunes in a wartime wheat boom like that of 1914-1918. The sun and the rain have been kind to this land, and by the end of August experts were talking of a

crop of more than 500,000,000 bushels. But such a crop would mean an addition to the huge carryover from last year's bumper crop—a carryover amounting to nearly 300,000,000 bushels in storage (July, 1940). For seeding purposes and home consumption, we ourselves have never used more than 120,000,000 bushels; so we shall probably have about 700,000,000 bushels for export. This is a truly staggering figure, when we consider that, although Canada is the world's largest exporter, she exported last year only 210,000,000 bushels, and the average world exports are about 600,000,000.

Fortunately our major market, the United Kingdom, remains open. But the Mother Country's total imports have recently been no more than about 200,000,000 bushels, a part of which comes from Australia and the Argentine. Now both Australia and the Argentine are having bad crop seasons, but both countries also have large stocks carried over from last year. Canada enjoys the advantage of being the nearest of these countries to Great Britain, (and nearness is important when shipping is a major consideration), but she cannot hope to supply more than three quarters of Britain's needs, at most. Early in August the British Cereal Board purchased directly 100,000,000 bushels of Canadian wheat at a price which was not disclosed but which was said to be "substantially above the market price level". This wheat will be held in Canada and shipped overseas when it is wanted.

Well stored, it can last—and may **have** to last—for about four years. The pressing problem of the moment is finding space in which to store it. The total space in grain elevators in Canada will accommodate somewhat over 400,000,000 bushels. Many elevators, closed for years, have been reopened, and the elevator companies are spending about \$2,500,000 on new building, in spite of great difficulty in procuring lumber. The Government has cooperated with the Companies in making lumber available and making taxation allowances on their new building. The Board of

Grain Commissioners, however, has cut the storage rates in the West from 1/30c a bushel per day to 1/45c, a step which should prevent any exorbitant profits but enable an industry which has had a bad time to revive.

Now the Government has taken further action on the storage problem. In order to prevent the first Manitoba farmer from storing all his grain before the last Albertan has finished harvesting, a quota system has been established, and storage licenses are being issued. Each farmer must swear to the number of acres he has seeded to wheat, oats, and barley. Then he is given a permit to deliver five bushels per acre, and each delivery is recorded in his permit book. A board has also been set up to control the allotment of railway cars to the various shipping points. Furthermore the Grain Commissioners have been forced to relax their strict regulations concerning the type of building considered eligible for storing wheat, and are now permitting storage in rinks, barns, and community halls.

The problem of finding space at home for wheat which he cannot store in elevators is not the only one the farmer faces. The past ten years have left him with many debts and mortgages. Normally he markets about three quarters of his new crop between August 1 and November 30, when he calculates on being able to clean up his debts and make the new purchases which supply the store-keepers of the West with cash and the industries of the East with an important market. But wheat stored on the farm brings no profit. Even with prompt payment, it has been estimated that the farmer needs 90c a bushel for his wheat at his own gate in order to maintain a decent standard of living and service his farm debt. On August 2, Mr. J. G. Gardiner, then Minister of Agriculture, admitted as much in the House. But in 1935 the Dominion Government guaranteed a price of 87½c for "Number 1 Northern" at Fort William, a price which remained in effect until 1938 when it was reduced to 80c. During 1939 the price was reduced by Act of Parliament to 70c. Of this amount 4½c comes off for

elevator charges, and there are freight charges to the head of the Lakes as well. On July 24 the Government announced that the price guarantee was to remain the same, but with an allowance to the farmer for holding his wheat on the farm. This allowance is to be the same as that paid to the elevators. The farmer will receive it in the form of an increased price for wheat. His remaining problem is to subsist until the money comes in; while the problem for others in the West is to subsist until the cash begins to circulate.

To study some of these problems Mr. T. A. Crerar, the Minister of Mines and Resources and Mr. Gardiner went west at the end of the session in Ottawa. On August 19 Mr. Gardiner made a statement in Winnipeg which seemed to suggest that the Dominion Government had done its job when it guaranteed wheat at 70c, and that if the farmer required further assistance he should appeal to his municipality or province; the wheat problem, considered as a matter of property and civil rights, would be a provincial charge. However, if the provinces and the municipalities cannot cope with this problem—and it is difficult to see how they could—they will presumably appeal to Ottawa. It has been argued that with his wheat guaranteed for eventual sale at 70c the farmer could use his store for security on which to borrow from the banks. The banks would, however, charge high interest rates, unless the Dominion could be persuaded to guarantee them against losses. A conference organized by Premier Bracken of Manitoba has made a submission to the Government pointing out that the wheat problem is really a war problem, requiring extraordinary government action, and asking consideration of a cash advance to the farmers. The Government's liability, it was said, need not exceed \$8,000,000.

Ottawa has already looked round for means of paying for its wheat policy. On July 24 a new process tax was announced, amounting to 15c a bushel on all wheat made into flour or other products for Canadian consumption. The

proceeds of this tax, expected to amount to about \$7,000,000 are to go to the Wheat Board. It was declared at the time that this tax ought not to mean a rise in the price of bread, as the cost of flour is only a minor part of the cost of producing a loaf of bread. However, bread prices rose in Montreal and Vancouver, and on August 7 the Wartime Prices and Trade Board prohibited any increase in the selling price of bread above the levels prevailing when the tax was announced. Bakers and millers declared that they could not absorb the tax. After careful investigation the Government decided that the millers' complaints were justified, but that, because of the drop in wheat prices, the bakers were now paying no more for flour than they paid early in May without the tax. Consequently, the order fixing bread prices was rescinded on September 6, but the bakers were warned that there is no justification for raising prices.

Another feature of the Government's wheat policy has been to keep open the Winnipeg Grain Exchange. In 1917 trading facilities were withdrawn after the price of wheat had passed \$3.00, and operations on the Exchange were not resumed until 1920. This time there is no fear of rising prices. In June of 1940, when world events threatened to have a disastrous effect on wheat prices, the Government requested the Winnipeg authorities to peg the price of wheat. The latter set a minimum price, below which no trading would be allowed. Since that time there has been very little trading at all, and the price has remained close to the minimum. From the beginning of the war Britain has entrusted the purchase of wheat to a single agency—which also controlled buying for France—and this agency is now about the only important overseas buyer. Some people, therefore, have argued that the listless Exchange should be closed, and the Western Wheat Pools have requested that all selling be done by the Wheat Board, but the Minister of Trade and Commerce has stated that the Government's action was influenced by the British Cereal Board which requested that the Exchange be kept open.

Although there has been general recognition throughout the Dominion that the wheat problem has produced an emergency situation demanding sacrifices on all sides, there have developed different points of view which might be described as Eastern and Western. The East feels little objection to the granting of relief to the Western grain-growers, but asks many questions about future policy. Certain quarters in the East are asking if it is not true that the guaranteeing by the Government of a fixed price has made wheat the safest crop to grow, for the Government has set no limits to the amount it would buy. They ask why the farmers were allowed to increase their acreage, and demand that the Government regulate the amount of production. Some are demanding acceptance of the fact that wheat sales must inevitably decline, that we cannot continue to pay farmers for producing wheat which we can never hope to sell. They suggest that wheat farmers be taken off the land and given jobs in munitions plants. One Eastern financial journal has even demanded that the price be left to find its own level, so that if this proves to be below the level of profit, production will be automatically curtailed. The same journal predicts that this year's crop will cost the Government about \$315,000,000, that not a bushel of this will be sold, and that storage costs will raise the price next year to 79c a bushel instead of 70c.

The reply made to these arguments is that the collapse of the overseas market in June could not be foreseen, and that there would have been strong criticism if a bumper market had developed without bumper crops to supply it. The farmers argue that the Government pays manufacturers a cost-plus-profit price for war supplies, and that there is no profit in 70c wheat.

Voices from all parts of the country have also pointed out that the storage at Government cost of a huge supply of wheat is an excellent investment. Europe is having a very poor crop of wheat. The great granaries of the Balkans have been upset by rumours of war, and the fields of Western

Europe have been laid waste. When the war is over, they say, there will be a tremendous demand for Canadian wheat. Bulging granaries in Canada would be a tremendous asset in any allied negotiations with a starving continent. Prime Minister Churchill has recently advocated the building up of reserves of food all over the world so that there will always be held out before the eyes of the peoples of Europe, including the Germans and Austrians "the certainty that the shattering of the Nazi power will bring them all immediate food, freedom and peace."

Canada has at the moment two **wheat problems**. There is the immediate problem of what to do with the gigantic stores of wheat which are now accumulating. Although there are differences of opinion as to the manner of carrying out relief measures, there is general agreement that the precious grain must be stored somewhere rather than be destroyed and that emergency measures must be taken to provide the farmer with cash for the winter. But next spring will bring another sowing, and by that time Canadians must face the greater problem, which concerns the future of an industry upon which a large measure of the Dominion's prosperity is based. In considering proposals for solution we should remember that only a few years ago our **wheat problem** seemed to be how to treat our prairie soil so that we might once more have bumper crops. We have had two large crops in succession, but there is no assurance that we might not have four bad ones and once more be faced with empty granaries. The real problem of wheat lies in its independability which renders our whole economy unstable. It can be argued that we are allowing a large number of our people to be demoralized by dependence on a crop which may vanish in a night, or flourish to the point at which it becomes almost valueless.

Although it would be unwise to respond to present panic by drastic reduction of wheat acreage, some curtailment might be desirable. Reliable experts have estimated that it is doubtful if we can hope for markets abroad averaging

more than 200,000,000 bushels, to produce which we could restrict our acreage by about one-fifth. Various alternatives have been suggested. Restriction could eliminate some of the "marginal land" which was none too reliable in the first place, or which has been damaged by the recent droughts. Some of this land might be converted for grazing. There might also be a development of the efforts to combine ranching and wheat-growing on "marginal lands" in order to prevent wholesale movements of population and to diversify somewhat the farmer's resources. The cattle industry might be developed further in the "park belts" which fringe the grain-growing country on the north, and to which there has already been some movement of population. Even on the land where wheat is the only possible product, wheat could continue to be grown, but be marketed in the form of grain-fed poultry or baby beef. The difficulties confronting such policies are very great, but the situation cannot be easily solved. The same droughts which affect grain affect cattle, but in good seasons it is better to have two products to market instead of one. The production of livestock and meat would, of course, require some active search for new markets on the part of the Government, and would depend upon the activities of Argentina and New Zealand just as the marketing of wheat depends on the activities of Argentina and Australia.

New markets would solve many problems for Canada. Already the Government is seeking them in regions like South America. From Washington and Havana have come suggestions of large-scale Pan-American collaboration in the marketing of the hemisphere's surpluses of meat and wheat and coffee. Canada's difficulty is, of course, that Argentina can very well supply most of South America with her requirements, while the United States can look after herself and still have wheat left over. Bolder minds point out, however, that it is absurd to talk of there being too much wheat when the great majority of the population of South America and a considerable proportion of the popu-

lation of North America are seriously underfed. So long as there is starvation and undernourishment in Canada itself, there should be no talk of a limit to the domestic market. There are always possibilities, too, of developing new uses for wheat. One member of Parliament has stated that 100,000,000 bushels might be used in the manufacture of alcohol to be used as a blend in motor fuels. The National Research Council has spent much time investigating new uses for wheat, and although results have not been very hopeful as yet, there is always the possibility of a solution by Science.

One thing is certain. We cannot abandon the wheat-growers, the store-keepers and bankers and school-teachers who serve them, as well as the thousands of workers in the East who make farm-machinery and binder-twine. If they cannot live on wheat, other provisions must be made for them. Some of them may raise cattle, and a limited number may find work in new mine or oil fields of the West. Some of the young men might be trained for service in the industries of the East. It is not established whether industry could be economically transferred from Central Canada, but Canadian industry seems to be due for a period of expansion and might welcome the resources of man-power in the West. If Eastern industry prospers, it must, for the sake of a healthy country, help Western agriculture to readjust itself. It is doing this at the present moment through the policy of the Ottawa Government. The guaranteeing of the price of wheat and assistance in crop insurance schemes are means by which the Government is alleviating suffering by spreading the costs. All of Canada has prospered with wheat and all of Canada should share the costs in time of adversity.

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